NOx SIP FOCUS MEETING NOTES

Budget Issues

What is source of heat input for Electricity Generating Unit (EGU) allocations?

94-97 EPA inventory
97-99 EPA Acid Rain inventory (www.epa.gov/acidrain/etsdata.html)

Would IDEM be willing to consider 2000 heat input and prepare another spreadsheet using 1995-2000 heat input. (IDEM can do another table including it.)

If excess allocations are available from non-EGU budget, what should be done with the allocations?

-allocate to non-EGU
-allocate to EGU
-add to new source set-aside
-Correct for EPA's over prediction; allocate excess elsewhere
-Pool EGU/non-EGU new sources set asides – add excess here

New Source Issues

New Electricity Generating Unit (EGU) Construction Projects

Issued Apps	1.9%
Pending	10.11%
Total	**12.01% of Trading Budget**

[Based on PTE allocated to ozone season]
Total is higher than 5% set aside in model rule.

Does the 17% growth for EGUs projected by EPA accurately reflect growth occurring in Indiana?

How do new sources get allowances for first year? Based on projected heat input.

If use 1995-2000 heat input, can roll new sources since 1995 in at outset?

There has been substantial growth in Indiana. Many unknown factors- won't know what new sources are built until 2003 and whether it is sufficient to go with 5%.

Allocation in model rule is 0.15 or permitted allowable, whichever less. >Fairness/equal treatment for all parties:

- Treat existing and new equally.
- Allow marketplace to dictate.
- Encourage newer technology
- Allocate all sources at 0.15 (even if allowable is less than 0.15)

- No turn back to allocation pool at end of year

How would new sources in non-attainment counties be allocated? How do offset credits relate to NOx allowances.

Growth for new sources must be taken out of the 5% set aside (2% in later years).

Capacity factors available on DOE database for existing EGUs. Information can be used to determine if growth has or is actually occurring.

Issued Non-EGU Permits:

0.9% of Non-EGU Budget. Less than 5% set aside from model rule.

What to do with remainder?

Set aside for non-EGU can be smaller than 5% - allowances can be shifted elsewhere.

Set Asides – Energy Efficiency/Renewables

- Need 20% Set aside for energy efficiency and renewables
- Counterpoint – improper mixing of energy and environmental policy
- EE/Renewables brings more allowances in, makes market more liquid
- But cap doesn't change
- It brings allowances in from national market
- Need ideas on when new sources get allowances "First come, first served?" And what does that mean?
- Put excess from non-EGU budget in EE/Renewables set-aside.

Input vs. Output Based

- DOE database has output figures for utilities that can be used
- If used, need to look at net vs. gross (utilities don't have a position on this yet)
- Should be very careful and not include non-emitting (nuclear) NOx sources
- Much more difficult to use output for non-EGUs

Non-EGU Allocation

-Make allocations equal – either .17 or 60% - those who don't need all can sell or save
-Not fair to make over-performing units reduce more
-Get credit for permanent shutdown of NOx sources not included in rule
>Can these be included in opt-in provisions? Need to look at.
Would like to be able to increase budget to account for these -
Increase a source's base – yes
Increase state budget - no
-Need mechanism to ensure reductions are true reductions

>CEMS required for opt-in sources

Base Year/Allocation Term/Timing

- Don't limit to model rule language – use same method for EGU and non-EGU
- Need options other than 1 year allocation
- 5 year "lookback" recommended for initial allocation and later allocation; make allocations for 5 years also
- New sources get rolled in each year, if one year allocation used
- One year allocation recommended encourages new generation – can get allocations in first year of operation
- There is value to predictiability – if utilities have certainty about their schedule for 4,5,6 years out, it assures reliability of the grid.

Opt-in Requirements

- Can other types of units opt-in to the trading program? Does the definition of "unit" restrict what can opt-in? Should the definition of "unit" be expanded?
- What type of monitoring will be required for opt-in units? (same as for budget units) Monitoring alternatives should be available for opt-in units

Compliance Supplement Pool

Size – Appx. 20,000 tons/Lasts thru 2005 season

EPA options:
1. Credit for early reductions
2. Demonstration of need if can't meet 2004 date

Early reduction credit options

1. Early reduction for SIP call requirements
2. Reductions below other requirements (Acid Rain, NSPS)

Demonstration of need

– the bar is set too high
– Entire pool should go for early reduction
– Energy reliability; utilities cannot ever prove they can't buy power, or would never be able to certify it
– Would like to limit demonstration of need to materials, labor availability
– How do these provisions apply to non-EGUs? Especially for demonstration of need based. Would have to show the same level of "undue risk"

Other issues

- Would like to see doubling of pool. The amount of control projected to be needed by EPA is different than IDEM. Should be reanalyzed. EPA's calculation based on 16 SCR's – there will be almost twice that many needed. (EPA would have to approve)
- Shortage of capacity to fabricate SCR units
- Tradeoff – extension of compliance date in exchange for early reduction
- Disagreement on doubling of pool
- Agreement on pool going to early reduction credits usable thru 2005
- Concern about SCR's being installed but not operated; Rule should require that as soon as equipment is operable it must be operated immediately – no early reduction credit.

Dates for distributing early reduction credits

- May 31, 2004 is too late for the early red credits to be handed out. One possibility is to do them annually. Each year the requests have to come in by October and we'd have to decide by January. Need earlier deadline for allocating? Yearly allocation? First come, first serve? Pro-rata allocation?
- Model rule – allocates credit for tons of NOx reduced from new controls compared to emissions w/o new control (and must be below reductions required for any other legal requirement). Baseline is a representative ozone season.

Flow Control

-Looks at state's budget

If banked allowance > 10% from prior year, allowances for future year discounted

To curb excessive banking, which can cause air quality

Problems if used all at one time

-Can flow control impact early reduction credit allowances – the use of them in 2005 (EPA stated no flow control for early reductions)

[**correction:** EPA clarified that the SIP call did not include flow control for the first year, 2003, but flow control would start in the second year, 2004. EPA is discussing to see if the years will shift due to the court's extension.]

Suggestion for Safe Harbor

-If source does all necessary things and allowances not available to purchase , provision that company not in violation

NOx SIP Call—doesn't allow this flexibility